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SUB IT German Economics Minister ERHARD Terms Ceylon Politically "Restless"

German Minister of Economics Professor Dr. Ludwig Erhard paid a four day visit to Ceylon on October 31 to November 3. In addition to a bit of relaxation and sight-seeing, he had discussions with the Governor-General, the Prime Minister, members of the Cabinet and the National Planning Council. According to a member of the German Legation, his primary purpose was to repay a visit to Germany made by Sir John Kotelawala several years ago. He also wanted to gain some impressions of the economic situation in the country, without actually committing himself on anything specific. Apparently he was able to achieve this objective, judging from the tone of his press interview upon departure, in which he stated Ceylon was politically "restless".

One interesting conversation, as related by a member of the German legation, occurred between Dr. Erhard and Ceylon Minister of Food and Agriculture Chinnip GUNAWARDENA. The latter informed Dr. Erhard that Ceylon did not want any private foreign investment from the "capitalist" countries. To this Dr. Erhard replied that he was glad, because he was not prepared to recommend to any German investors that they bring their money here.

In his departing interview with the press, Dr. Erhard stated that he had the impression that the basic economic and social conditions of Ceylon were good, and the country also had a potential of resources. Despite these advantages, Ceylon was today the most politically "restless" country he had visited on his tour of Asia, he said. There seemed to be an argument as to which path Ceylon should follow for economic development, the Western or the Communist, Dr. Erhard declared. He warned that all the countries of Asia were in danger of overindulging in nationalism, and this could lead to erection of economic barriers which would retard the development of the area. The real need of the Asian countries is for large amounts of capital in a short time, which could not come only from domestic sources, said Dr. Erhard. In answer to a question, he indicated the private German investors would be reluctant to come to Ceylon, because the political situation was unstable and because the Ceylonese have not yet resolved the problem of how they are going to bring about economic development. Dr. Erhard added that in addition he would expect some kind of an investment guarantee agreement to be signed between the two governments before investment took place. (enclosure 1)

Dr. Erhard's comments on Ceylon's political state evoked sufficient reaction to prompt the Minister of the German Legation to issue a press statement on the

JA Anderson/djp
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Page 2 of
Encl. No.
Disp. No. 543
From COLOMBO

following day which was supposed to clarify Erhard's allusions. He stated that "it was not Professor Erhard's intention in any way to suggest that there was any lack of stability in the Government of Ceylon." According to this correction, what Dr. Erhard had intended to state was that Ceylon had a great economic potential and that in order to utilize it, "the political position had to be consolidated." This clarification by the German Minister may have been due to the fact that reportedly he was called in by the Prime Minister, who declared that this Erhard statement had endangered Ceylon-German relations. The German Minister replied that he had always understood that the Prime Minister believed in the "middle way" in politics, that Erhard's statement had taken that into account, and that nothing unduly critical of Ceylon's political situation was intended. The Prime Minister is alleged to have been satisfied with this explanation.

Two newspapers editorialized about the Erhard visit. The strongly anti-Government Observer declared that during his visit to Ceylon Dr. Erhard had "observed keenly and has spoken clearly about the Ceylonese scene." The editorial stated that it was in complete agreement with Dr. Erhard's basic thesis that this country had basic economic resources which should be developed, and that it needed outside capital to do so. "But as long as the Government is unable to restore a semblance of political stability all the guarantees in the world will not attract even the most adventurous investor to this country." The Times editorial was considerably milder, pointing out that if the Government chose to industrialize by depending only on its own resources, then "the process would entail rigorous regimentation and the sacrifice of even the present standard of living." The recommendation made by this editorial was that Ceylon would be better advised to get foreign assistance, both private and governmental. However, this Government cannot make up its mind about which policy to follow, the editorial concluded.

Dr. Erhard's statement has been the subject of considerable private comment, both Ceylonese and foreign. The Minister of Commerce is reported to have been very critical, a reaction presumably shared by other Ministers. The Permanent Secretary of the Ministry of External Affairs is quoted as personally agreeing fully with Dr. Erhard as are several high-ranking military officers.

Within the western diplomatic community, it appears that there is unanimous agreement that a frank statement of this nature was overdue, and that Dr. Erhard, because of his personal prestige and the absence of substantial German interests in Ceylon, was admirably suited to make it. However it is felt that references, such as the one to Ceylon as "the most restless of all countries . . . in Asia" was not fully defensible, would cause undue Ceylonese irritation and probably detracted from the desired effect.

COMMENT: Even though he spent two days resting in Kandy, the German Economics Minister had economic discussions with most of the prominent Government officials, and in his news conference, he spoke in a rather blunt and effective manner about possible German-Ceylon private investment. This latter blunt approach, it is understood, is advocated by the German Minister of Ceylon, who nevertheless expressed himself privately as fearful of Ceylon Government reaction

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Page 3 of
Encl. No. 23
Desp. No. COLOMBO
From

after the statement was made, and of the opinion that Dr. Richard had gone a bit far.

Refus Barr Smith
Refus Barr Smith
Chargé d'Affaires ad interim

Enclosure

3 clippings from Daily News, 11/5/58

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